

The Accounts of the Exchange Fund

**Certificate of the
Director of Audit on the
abridged financial
statements of The
Exchange Fund for the
year ended 31 December
1993**

I certify that I have audited in accordance with the directive of the Governor made under section 7 of the Exchange Fund Ordinance (Cap. 66) the financial statements of the Exchange Fund as at 31 December 1993 and for the year ended 31 December 1993 and in my certificate on those financial statements I have expressed an unqualified opinion.

In my opinion, the abridged financial statements on pages 61 to 63 are consistent with the financial statements referred to above from which they were derived.

Audit Department
Hong Kong
29 April 1994

B G JENNEY
Director of Audit

Exchange Fund Abridged Balance Sheet

<i>as at 31 December</i>		1993	1992
	Notes	HK\$mn	HK\$mn
ASSETS			
Foreign Currency Assets)	1	335,421	274,948
Hong Kong Dollar Assets)		12,973	12,546
		348,394	287,494
LIABILITIES			
Certificates of Indebtedness	2	68,801	58,130
Fiscal Reserves Account	3	115,683	96,145
Coins in Circulation		2,604	2,559
Exchange Fund Bills and Notes		25,168	19,324
Balance of Banking System	4	1,385	1,480
Other Liabilities	5	7,135	3,220
		220,776	180,858
Net Assets		127,618	106,636
REPRESENTED BY			
Accumulated Surplus brought forward		106,636	98,652
Surplus for the year		20,982	7,984
Accumulated Surplus carried forward		127,618	106,636

The notes on page 63 form part of these accounts.

Joseph YAM

Monetary Authority

25 April 1994

Exchange Fund Abridged Income and Expenditure Account

<i>for the year ended 31 December</i>		1993	1992
	Notes	HK\$m	HK\$m
INCOME			
Investment Income	6	21,886	11,899
Licence Fees		122	0
Others		12	38
Total Income		22,020	11,937
EXPENDITURE			
Note and Coin Expenses		349	222
Administration Expenses	7	248	97
Interest	8	4,809	3,634
Total Expenditure		5,406	3,953
Surplus before Extraordinary Item		16,614	7,984
Extraordinary Item	9	4,368	0
SURPLUS FOR THE YEAR		20,982	7,984

The notes on page 63 form part of these accounts.

The abridged accounts, including Notes to the Abridged Accounts, agree with the detailed audited accounts in all material aspects, except that some of the smaller items have been consolidated in the abridged accounts.

1. (a) INVESTMENTS

The fund is invested in interest-bearing deposits with banks in Hong Kong and overseas and in a variety of financial instruments, including bonds, notes, treasury bills and US equities.

(b) FOREIGN CURRENCY ASSETS DISTRIBUTION

A large proportion of the Fund's foreign currency assets are held in US dollars. Apart from the US dollar, the Fund also holds assets denominated in other major foreign currencies, such as Australian dollar, Belgian franc, Canadian dollar, Deutschemark, Danish krone, Japanese yen, pound sterling, Swiss franc, Dutch guilder, French franc and the ECU, etc.

(c) LOCATION OF ASSETS

The assets are held in deposit, trustee and safe-keeping accounts with banks, central banks and custodial organisations situated in Hong Kong and other major financial centres.

(d) VALUATION OF ASSETS

All assets, except fixed deposits, repurchase agreements and central bank facility which are valued at cost, are valued at market prices on the last business day of each accounting period.

(e) TRANSLATION OF FOREIGN CURRENCY ASSETS

US dollar assets are translated into HK dollars at an exchange rate of US\$1 = HK\$7.80. Assets in other foreign currencies are translated into HK dollars based on US dollar middle market cross rates in London at the close of business on the last business day of the accounting period.

2. As backing for their bank note issues, the two note issuing banks are required to hold non-interest bearing Certificates of Indebtedness issued by the Exchange Fund. Since 17 October

1983 these Certificates have been issued to and redeemed from the two banks against payment in US dollars at a fixed rate of HK\$7.80 = US\$1.00.

3. This comprises the fiscal reserves which have been transferred from the General Revenue Account, Capital Investment Fund, Loan Fund and Capital Works Reserve Fund to the Exchange Fund on an interest earning basis.

4. In accordance with the Accounting Arrangements introduced in July 1988, The Hongkong and Shanghai Banking Corporation Limited, as the Management Bank of the Clearing House of HKAB, is required to maintain a Clearing Account with the Exchange Fund. The balance in the Account, which represents the level of liquidity in the interbank market, can only be altered by the Monetary Authority. The Accounting Arrangements enable the Monetary Authority to maintain exchange rate stability more effectively by influencing the level of interbank liquidity through money market operations.

5. Other liabilities comprise expenses accrued at the year end, in the main interest due on transfers from fiscal reserves, other borrowings and provision for contingency related to Note 9.

6. Investment income includes interest and dividend income and net realised and unrealised exchange and investment gains and losses.

7. This item comprises staff costs, office rental and other operating expenses. 1992 figures are not comparable because they exclude costs of the Office of the Commissioner of Banking.

8. This item comprises the interest payments for transfers from fiscal reserves, Exchange Fund Bills and Notes and other borrowings.

9. This item comprises solely the net proceeds on the sale of Overseas Trust Bank Limited, after all related costs and provision for contingency.